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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

In the Matter of the Application of)
Southern California Gas Company (U 904 G))
Regarding Year 17 (2010-2011) of Its) Application 11-06-____
Gas Cost Incentive Mechanism)
_____)

**APPLICATION OF
SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)
REGARDING YEAR 17 (2010-2011)
OF ITS GAS COST INCENTIVE MECHANISM**

Southern California Gas Company (“SoCalGas”) hereby submits its seventeenth annual application (“Application”) under the Gas Cost Incentive Mechanism (“GCIM”). The Commission established the GCIM in Decision (“D.”) 94-03-076, modified and extended it in D.97-06-061, extended it on an annual basis beginning with Year 6 in D.98-12-057, and further modified and extended it on an annual basis beginning in Year 8 in D.02-06-023.¹ Pursuant to these decisions and SoCalGas’ Tariff Preliminary Statement Part VIII, Gas Cost Incentive Mechanism, SoCalGas is to file an application and report in June of each year to address its performance under the GCIM for the previous April 1 through March 31, period (“GCIM Year”).

¹ Pursuant to D.02-06-023, the GCIM will continue on an annual basis until the Commission modifies or terminates it after giving interested parties notice and an opportunity to be heard. See D.02-06-023, mimeo., at 16, 21-22, and p.1 of Attachment A.

In this Application, SoCalGas provides its report on gas supply and storage operations for the twelve-month GCIM year ending March 31, 2011 (“Year 17”), and submits its request for Commission approval of a shareholder reward of \$6,222,061 for its Year 17 performance. SoCalGas’ Year 17 Annual Report is Attachment A to this Application.

I. BACKGROUND

A. Establishment of the GCIM

On March 16, 1994, the Commission approved SoCalGas’ A.93-10-034 implementing a new method by which the Commission oversees the reasonableness of gas purchases and gas storage decisions made by SoCalGas on behalf of core sales customers (D.94-03-076). The Commission initially established a three-year experimental GCIM program beginning April 1, 1994. As stated in D.94-03-076, the GCIM program originally consisted of two separate elements, one that measured performance for gas procurement efforts and the other that measures performance for efficient gas storage operations for the core class. The original GCIM affected approximately 75 percent of SoCalGas’ total gas purchases.

The original GCIM established a benchmark against which to measure the price SoCalGas pays for core and core subscription gas supply. The benchmark was based on a combination of monthly gas price indices published in Natural Gas Intelligence, Inside FERC Gas Market Report, and a New York Mercantile Exchange (“NYMEX”) component for gas futures. The GCIM proposal included a “tolerance band” to allow SoCalGas to meet objectives related to service reliability and supply security. The approved tolerance band was initially established at four and one-half percent during the first year of the GCIM and four percent for the subsequent two years.

In establishing the GCIM in D.94-03-076, the Commission ordered the Commission Advisory and Compliance Division (“CACD”) to conduct an evaluation of the GCIM by

August 1, 1996, to provide the Commission with guidance regarding the success or failure of the program prior to its three-year completion. The Division of Ratepayer Advocates (“DRA”) was given the task of auditing SoCalGas’ annual reports on the GCIM.

In D.02-06-023, the Commission approved a Settlement Agreement executed in July of 2001 by SoCalGas, the Office of Ratepayer Advocates (“ORA”), and The Utility Reform Network (“TURN”). The Settlement Agreement extends the GCIM on an annual basis into Year 8 and beyond, until such time as the Commission approves -- after giving the parties notice and an opportunity to be heard -- a request for modification to or termination of the GCIM.

B. GCIM Year 1

Consistent with D.94-03-076, SoCalGas filed its first annual GCIM report on June 22, 1995 (A.95-06-043). A.95-06-043 outlined the performance for SoCalGas during GCIM Year 1 and proposed six modifications to the GCIM. DRA conducted its audit of SoCalGas’ report opposing only two of the proposed modifications. SoCalGas settled with DRA in agreeing on four of the six proposed modifications, and the Commission granted SoCalGas its requested shareholder award.

C. GCIM Year 2

On June 17, 1996, SoCalGas filed A.96-06-029 reporting on its gas supply and storage operations during Year 2. The deadline set in D.94-03-076 for the CACD, or its successor the Energy Division, to file an evaluation report passed on August 1, 1996.

On February 13, 1997, SoCalGas and ORA filed a Joint Motion for order adopting Stipulation and Agreement, Suspending Procedural Schedule, Waiving Oral hearings, Limited Consolidation of Indicated Docket, and for Other Relief. Among other things, the Stipulation and Agreement resolved all issues related to the Year 2 application, proposed to replace the four percent tolerance band with a tolerance band of two percent above and one-half percent below

the benchmark, and provided for revisions to, and extension of, the GCIM program on an annual basis beyond the original expiration date of March 31, 1997.

In D.97-06-061, the Commission adopted the joint recommendation of ORA and SoCalGas with one modification. The sole modification was to limit the current extension of the GCIM to a two-year term ending March 31, 1999, “in order for the Commission to revisit this program, if it chooses, as part of its gas strategy.”²

D. GCIM Year 3

On June 16, 1997, SoCalGas filed its Year 3 report. That filing was reviewed and accepted without modification by ORA on December 5, 1997, and approved without hearings, by the Commission in D.98-06-024.

E. GCIM Year 4

On June 18, 1998, SoCalGas filed its Year 4 report. That filing was also reviewed and accepted without modification by ORA and approved by the Commission, without hearings, in D.98-12-057. The Commission stated in Ordering Paragraph 2 of D.98-12-057 that:

SoCalGas’ GCIM is extended on an annual basis for 12-month cycles, beginning in Year 6, the period April 1, 1999 through March 31, 2000, unless the mechanism is modified or discontinued by order of the Commission.

F. GCIM Year 5

On June 15, 1999, SoCalGas filed its Year 5 report in A. 99-06-027, which was reviewed and approved without modification by ORA and was approved, without hearings, in D.00-06-039. In D.00-06-039, the Commission did not order modifications to or termination of the GCIM, but did order the Energy Division to conduct an evaluation of the GCIM before the

² D.97-06-061, mimeo., at 1.

Commission would consider modifications to the GCIM, including whether to extend or terminate the mechanism.

G. GCIM Year 6

On June 15, 2000, SoCalGas filed its Year 6 report in A.00-06-023. On October 30, 2000, ORA issued its Monitoring and Evaluation Report of A.00-06-023, which “verified that the Commission approved sharing mechanism results in a \$14.4 million benefit to ratepayers and a shareholder reward of \$9.8 million.” In its report, ORA supported the continuation of the GCIM into Year 7 and recommended the continuation of the GCIM program into Year 8 with two refinements to the mechanism.³ Pursuant to D.00-06-039, on January 4, 2001, the Energy Division issued a comprehensive 37-page analysis of the history, function, and results of the GCIM. In its analysis, the Energy Division concluded that gas purchases made by SoCalGas under the GCIM “are definitely far more favorable to ratepayers than those made when reasonableness reviews were in effect.”⁴ The Energy Division noted that “the GCIM has achieved the Commission’s goals for the GCIM,” and recommended that the GCIM be continued, explaining that “the GCIM is superior to various alternatives, such as traditional reasonableness reviews, elimination of SoCalGas from the gas procurement function, or inclusion of gas procurement costs in an overall performance-based ratemaking mechanism.”⁵ In D.01-05-002, the Commission approved, without hearings, SoCalGas’ GCIM award for its Year 6 performance and opened Phase 2 of A.00-06-023 to address whether the GCIM should be extended with or without modification.

³ The two refinements to the GCIM for Year Eight were: 1) the modification of the lower tolerance band from the current 0.5% to 1.0%, and 2) replace the NYMEX benchmark with published (daily or weekly) indices with a set 25% weighting. ORA GCIM Year 6 Monitoring and Evaluation Report, pg. 1-4 dated October 30, 2000.

⁴ Energy Division Analysis at 20; see also D.02-06-023, mimeo., at 5 referencing the analysis.

⁵ Energy Division Report of the SoCalGas GCIM, page 1, dated January 4, 2001.

In D.02-06-023 the Commission approved a settlement agreement among SoCalGas, ORA, and TURN, which extended and made the following changes to SoCalGas' GCIM:

1. Elimination of the NYMEX Program as a benchmark index, beginning in Year 8.
2. Shareholder awards will be capped at 1.5 percent of the actual annual gas commodity cost.
3. The sharing bands below the benchmark will be:

Sharing Band	Ratepayer%	Shareholder%
0.0%-1.00%	100%	0%
1.00%-5.00%	75%	25%
5.00% & Above	90%	10%

Pursuant to D.02-06-023, SoCalGas' GCIM will continue on an annual basis until further modified or terminated upon Commission order.⁶

H. GCIM Year 7

On June 15, 2001, SoCalGas filed its Year 7 GCIM report in A.01-06-027, seeking a shareholder award of \$106.1 million. Year 7 represented an extremely volatile year in gas prices, compounded by unusually cold weather, higher wholesale electric prices, lower hydroelectric generation in the Pacific Northwest, higher electric generation demand, and lower throughput on the El Paso Natural Gas Company interstate pipeline system due to a system rupture. Despite all of these factors, SoCalGas was able to effectively manage its assets to the benefit of core ratepayers, resulting in gas for the core being purchased at an average price of \$5.16 per MMBtu -- well below the benchmark of \$5.72 per MMBtu.

Pursuant to the Settlement Agreement adopted in D.02-06-023, SoCalGas retroactively applied its new 1.5% commodity cost cap, and reduced its proposed GCIM Year 7 shareholder award from \$106.1 million to \$30.8 million. The Commission approved SoCalGas' revised \$30.8 million GCIM Year 7 shareholder award request in D.03-08-065.

⁶ D.02-06-023, mimeo, at 25-26 and page 1 of Attachment A (the settlement agreement).

I. GCIM Year 8

SoCalGas filed A.02-06-035 on June 17, 2002, requesting an authorized shareholder award of \$17.4 million for GCIM Year 8, an amount that also reflected the retroactive application of the new 1.5% commodity cost cap on shareholder awards. In GCIM Year 8, California continued to experience a volatile natural gas market. Despite this volatility, the GCIM continued to provide SoCalGas' core customers with reliable natural gas supplies at below market cost. SoCalGas realized an average gas cost of \$3.13 per MMBtu, \$0.51 per MMBtu below the benchmark price of \$3.64 per MMBtu. The Commission approved SoCalGas' \$17.4 million GCIM Year 8 shareholder award request in D.03-08-064.

J. GCIM Year 9

SoCalGas filed A.03-06-021 on June 16, 2003 summarizing its GCIM Year 9 activities and requesting an authorized shareholder award of \$6.3 million. While Year 9 provided more stability to the gas market than in the two preceding years, California's natural gas market continued to be very dynamic. Despite these changing conditions, SoCalGas' core customers continued to receive reliable natural gas supplies at \$39 million below market cost. The Commission approved SoCalGas' \$6.3 million GCIM Year 9 shareholder award request in D.04-02-060.

K. GCIM Year 10

SoCalGas filed A.04-06-025 on June 15, 2004, summarizing its GCIM Year 10 activities and requesting a GCIM Year 10 shareholder award of \$2.4 million. During GCIM Year 10, SoCalGas continued to provide its core customers with reliable natural gas supplies, at \$27 million below market cost.⁷ The Commission approved SoCalGas' \$2.4 million GCIM Year 10 shareholder award request in D.05-04-003.

⁷ D.05-04-003, page 3.

L. GCIM Year 11

A.05-06-030 was filed on June 15, 2005, which requested a GCIM shareholder award of \$2.5 million for Year 11. SoCalGas provided natural gas supplies to its core customers at \$31.4 million below the benchmark during GCIM Year 11. On November 30, 2005, ORA issued its GCIM Year 11 Monitoring and Evaluation Report which concurred with SoCalGas' proposed shareholder award of \$2.5 million, but also recommended two modifications to the GCIM mechanism.⁸

1. SoCalGas should inject gas into storage on a uniform ratable basis during the injection months.
2. SoCalGas should meet a strict minimum of 70 Bcf inventory level in storage by November 1.

On February 17, 2006, DRA (formerly "ORA"), TURN, and SoCalGas filed a Joint Recommendation which resolved the concerns raised by DRA in its Monitoring and Evaluation Report. Specifically, the Joint Recommendation proposed the following changes to the GCIM:

- The core's October 31 physical inventory storage target will change from 70 Bcf +5/-5 Bcf to 70 Bcf +5/-2 Bcf. This core physical inventory does not include any net park and net loan positions.
- If additional storage inventory capacity is allocated to SoCalGas' core beyond 70 Bcf, core's October 31 physical inventory storage target will be increased by that amount.
- SoCalGas must obtain the consent of DRA and TURN to rely upon its existing secondary storage target.
- Unless otherwise agreed to by DRA and TURN, SoCalGas must have a minimum core-purchased inventory of 49 Bcf on July 31, 2006. This target may include net loan positions.
- For the years beyond 2006, SoCalGas will obtain agreement from DRA and TURN for mid-season core-purchased inventory target(s) which must be met unless otherwise agreed to by DRA and TURN. Each of these changes would be reflected in SoCalGas' GCIM tariff.

⁸ ORA GCIM Year 11 Monitoring and Evaluation Report, page 1-2.

The Joint Recommendation of DRA, TURN, and SoCalGas was adopted by the Commission in D.06-10-029 along with SoCalGas' requested shareholder award for Year 11 of \$2.5M.⁹

M. GCIM Year 12

SoCalGas filed A.06-06-017 on June 15, 2006 and requested a GCIM shareholder award of \$9.8 million for Year 12. During GCIM Year 12, SoCalGas continued to provide its core customers with reliable natural gas supplies, at \$69.1 million below market cost. In October 2006, DRA issued its Monitoring and Evaluation Report for GCIM Year 12 and recommended approval of SoCalGas' requested shareholder award. The Commission approved SoCalGas' \$9.8 million GCIM Year 12 shareholder award request in D.07-11-005.

N. GCIM Year 13

SoCalGas filed A.07-06-021 on June 15, 2007 and requested a GCIM shareholder award of \$8.9 million for Year 13. During GCIM Year 13, SoCalGas continued to provide its core customers with reliable natural gas supplies, at \$57.7 million below benchmark cost. In October 2007, DRA issued its Monitoring and Evaluation Report for GCIM Year 13 and recommended approval of SoCalGas' requested shareholder award. A.07-06-021 was approved by the Commission on January 31, 2008 (D.08-01-035), finding that SoCalGas reasonably managed its gas acquisition and operations in Year 13 within the context of the GCIM that existed at the time, and that the calculation and amount of the shareholder award is correct pursuant to the GCIM modifications adopted in D.02-06-023.

⁹ As with GCIM Yr 7, Yr 8, Yr 9, and Yr 10 shareholder awards granted by the Commission, this GCIM Yr 11 award was made subject to refund or adjustment, as may be determined in I.02-11-040. However, in D.06-12-034, the Commission closed I.02-11-040 with prejudice and terminated the conditions imposed upon these GCIM shareholder awards.

O. GCIM Year 14

SoCalGas filed A.08-06-016 on June 16, 2008, requesting a GCIM shareholder award of \$6.5 million for Year 14. During GCIM Year 14, SoCalGas continued to provide its core customers with reliable natural gas supplies, at \$50.1 million below benchmark cost. In November 2008, DRA issued its Monitoring and Evaluation Report for GCIM Year 14 and recommended approval of SoCalGas' requested shareholder award. In February 2009 the Commission issued D.09-02-005, approving A.08-06-016 and SoCalGas' requested shareholder award of \$6.5 million.

P. GCIM Year 15

SoCalGas filed A.09-06-014 on June 15, 2009, requesting a GCIM shareholder award of \$12 million for Year 15. During GCIM Year 15, SoCalGas continued to provide its core customers with reliable natural gas supplies, at \$75.6 million below benchmark cost. In October 2009, DRA issued its Monitoring and Evaluation Report for GCIM Year 15 and recommended approval of SoCalGas' requested shareholder award. In January 2010 the Commission issued D.10-01-018, approving A.09-06-014 and SoCalGas' requested shareholder award of \$12 million.

Q. GCIM Year 16

SoCalGas filed A.10-06-006 on June 14, 2010, requesting a GCIM shareholder award of \$6.0 million for Year 16. During GCIM Year 16, SoCalGas continued to provide its core customers with reliable natural gas supplies, at \$39.9 million below benchmark cost. In May 2011, DRA issued its Monitoring and Evaluation Report for GCIM Year 16 and recommended approval of SoCalGas' requested shareholder award. It is anticipated that a final decision will be

issued by the Commission during the third quarter of 2011 approving A.10-06-006 and SoCalGas' requested shareholder award of \$6 million

II. PURPOSE OF APPLICATION AND RELIEF SOUGHT

The purpose of this Application is to request a GCIM shareholder reward of \$6,222,061 for SoCalGas' performance in Year 17 pursuant to the revised GCIM established by D.02-06-023. As documented in Attachment A, in Year 17, SoCalGas was able to purchase gas at \$40.9 million below the GCIM benchmark. The actual cost of all purchases by SoCalGas subject to the GCIM was \$1,709,500,858 while the benchmark cost was \$1,750,392,490. Pursuant to the revisions to the GCIM adopted in D.02-06-023, if the Commission determines that these figures are accurate, SoCalGas will be entitled to a shareholder reward of \$6,222,061.

The relief sought by SoCalGas in this Application is a GCIM Year 17 shareholder award of \$6,222,061.

III. STATUTORY AND PROCEDURAL REQUIREMENTS

A. Category, Need for Hearing, Issues, and Schedule – Rule 2.1(c)

SoCalGas proposes that this proceeding be categorized as “ratesetting” because SoCalGas' proposals will have a future effect on rates. SoCalGas does not believe that a hearing is necessary. Given the record that has already been developed in other Commission proceedings, and given the GCIM settlement adopted by the Commission in D.02-06-023, SoCalGas does not believe that its proposals in this proceeding will raise any issues of fact that will require a hearing.

The issue to be considered in this proceeding is whether SoCalGas should be awarded the GCIM Year 17 shareholder award of \$6,222,061 it has requested.

SoCalGas proposes the following schedule for this Application:

<u>EVENT</u>	<u>DATE</u>
SoCalGas files Application	June 15, 2011
Deadline for responses to Application	July 15, 2011
Prehearing Conference	August 17, 2011
DRA Report	October 17, 2011
Proposed Decision	January 2012
Commission Decision	February 2012

B. Authority – Rule 2.1

This Application is made pursuant to Sections 451, 454, 489, 491, 701, 728, and 729 of the Public Utilities Code of the State of California, the Commission’s Rules of Practice and Procedure, and relevant decisions, orders, and resolutions of the Commission, including D.02-06-023.

C. Corporate Information and Correspondence – Rule 2.1(a) and (b)

SoCalGas is a public utility organized and existing under the laws of the State of California. SoCalGas’ principal place of business and mailing address is 555 West Fifth Street, Los Angeles, California. All correspondence and communications regarding this Application should be addressed to:

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D. Request for Ex Parte Approval – Rule 2.1 (c)

The Commission is familiar with SoCalGas' GCIM and the limited issues presented by this Application. SoCalGas believes that the information provided by this Application and accompanying Year 17 Report will be a sufficient basis for the Commission to reach a decision without hearings. Accordingly, SoCalGas respectfully requests that the Commission approve this Application expeditiously, and without evidentiary hearings.

E. Articles of Incorporation – Rule 2.2

SoCalGas previously filed a certified copy of its Restated Articles of Incorporation with Application No. 98-10-012, and these articles are incorporated herein by reference.

F. Balance Sheet and Income Statement – Rule 3.2(a)(1)

Attachment B to this Application is SoCalGas' Balance Sheet as of March 31, 2011. Attachment C to this Application is SoCalGas' Income Statement for the three-month period ended March 31, 2011.

G. Rates – Rule 3.2(a)(2) and (3)

The rate changes that will result from this Application are described in Attachment D.

H. Property and Equipment – Rule 3.2(a)(4)

A general description of SoCalGas' property and equipment was previously filed with the Commission on May 31, 2004, in connection with SoCalGas' Application No. 04-05-008 and is

incorporated herein by reference. A statement of account of the original cost and depreciation reserve attributable thereto is attached to the Application as Attachment E.

I. Summary of Earnings – Rules 3.2(a) (5) and (6)

Attachment F to this Application is a Summary of Earnings for the 3 months ended March 31, 2011.

J. Exhibits and Readiness – Rule 3.2

SoCalGas' GCIM Year 17 Annual Report accompanies this Application. SoCalGas is now ready to proceed with its showing.

K. Depreciation – Rule 3.2(a)(7)

For financial statement purposes, SoCalGas has computed depreciation of utility plants on a straight-line remaining life basis at rates based on the estimated useful lives of plant properties. For federal income tax accrual purposes, SoCalGas generally computes depreciation using the straight-line method for tax property additions prior to 1954, and liberalized depreciation, which includes Class Life and Asset Depreciation Range Systems, on property additions after 1954 and prior to 1981. For financial reporting and rate purposes, "flow through accounting" has been adopted for such properties.

For property additions in years 1981 through 1986, SoCalGas has computed its tax depreciation using the Accelerated Cost Recovery System. For years after 1986, the Company has computed its tax depreciation using the Modified Accelerated Cost Recovery Systems, and, since 1982, has normalized the effects of the depreciation differences in accordance with the Economic Recovery Tax Act of 1981 and the Tax Reform Act of 1986.

L. Proxy Statement – Rule 3.2(a)(8)

A copy of SoCalGas' most recent proxy statement, dated May 2, 2011, was provided to the Commission on May 4, 2011, and is incorporated herein by reference.

M. Pass Through of Costs – Rule 3.2(a)(10)

The shareholder reward sought by SoCalGas in this Application would not simply pass through to customer's costs to SoCalGas for services and commodities furnished by it.

N. Service and Notice – Rule 1.9

SoCalGas is serving this Application on all parties to A.10-06-006. Within twenty days of filing, SoCalGas will mail notice of this Application to the State of California and to cities and counties served by SoCalGas, and SoCalGas will post the notice in its offices and publish the notice in newspapers of general circulation in each county in its service territory. In addition, SoCalGas will include notices with the regular bills mailed to all customers affected by the proposed rate change.

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IV. CONCLUSION

For the reasons set forth above, SoCalGas respectfully requests that the Commission approve a Year 17 GCIM shareholder award of \$6,222,061 on an expedited and ex parte basis.

Respectfully submitted,
SOUTHERN CALIFORNIA GAS COMPANY

By: /s/ James P. Harrigan
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Vice President Gas Acquisition

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June 15, 2011

VERIFICATION

I, James P. Harrigan, am an officer of Southern California Gas Company, and I am authorized to make this verification on its behalf. The content of this Application is true, except as to matters that are stated on information and belief. As to those matters, I believe them to be true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on June 15, 2011, at Los Angeles, California.

/s/ James P. Harrigan

James P. Harrigan
Vice President Gas Acquisition